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# **SOCIAL CAPITAL AND SME PERFORMANCE: THE MODERATING ROLE OF EMOTIONAL INTELLIGENCE**

## **Abstract**

### **Purpose**

Lack of extant studies on the moderating role of emotional intelligence on the relationship between social capital and firm performance necessitated this study. The main purpose of this research was to examine the extent to which Emotional Intelligence (EI) moderates the relationship between social capital and SMEs performance .

### **Design**

A total of 1532 SMEs were selected through simple random sampling technique from a population of 5009 SMEs. Structural Equation Modelling using AMOS was used to analyse the relationship between the variables.

### **Findings**

The results revealed that social capital has a positive and significant relationship with emotional intelligence. Moreover, the study also showed that emotional intelligence has a positive and significant relationship with SME performance. Lastly, the study found that emotional intelligence enhances the relationship between social capital and SME performance.

### **Practical Implications**

SME owner/managers are advised to enact policies that encourage the establishment of meaningful social networks and also help employees understand their emotions while creating social capital as both would help improve the performance of their firms.

### **Originality**

This paper breaks new ground by identifying emotional intelligence as an enabler of SMEs performance where there is adequate social capital.

**Keywords:** Social capital, Emotional intelligence, Firm performance, Social capital theory, Ghana, .

## 1. Introduction

Recent changes in production and the mode of conducting business have made Small and Medium-scaled Enterprises (SMEs) adopt strategies that can help improve performance and help secure the long-term survival of their firms. However, a major problem faced by SMEs all over the world is limited access to business funds (capital) and also issues with human resource management (Glaeser, Laibson and Sacerdote, 2002; OECD, 2004). According to Perreault et al. (2007), one of the most profound remedies to the funding problems of SMEs is the use of social capital (SC) to acquire the needed or extra finance (funding), markets and information. This is because among SMEs, SC is easier to access relative to other forms of capital (Hierpe, 2003; Roxas, 2008). SC can simply be explained as the anticipated mutual and commercial economic gains obtained from an advantageous manner and collaboration amongst individuals and groups (Cheng-Nam et al., 2007). Lin (2001a) defines SC “as resources that are embedded in and can be accessed by or utilized through the relationships in the network”. Networks create the required environment for entrance to and the mobilisation of tacit assets, which are accessed through relationships.

SC is manifested in the form of respect, gratitude, access to information benefits, opportunities and capital acquired from friends, ties, network or even from families (Bourdieu, 1986; Burt, 18992; Granovetter, 1998). In this study, SMEs performance depends on entrepreneurs’ access to finance, markets and information (Fornoni et al., 2012; Glaeser et al., 2002). Access to these three resources by the entrepreneur is facilitated by specific dimensions of SC. Marketers tend to focus more on access to markets and information to promote marketing effectiveness towards maximum performance (Du et al., 2015). To marketers, access to finance, markets and information takes place in the face of a good relationship driven by trust, loyalty and reliability (Adlešič and Slavec, 2012; Bosma, et al., 2002). Invariably, businesses see SC as a resource that can be well managed in the view of relationship marketing (Bosma et al., 2002), where good relationships with individuals and groups can be used to improve the competitiveness and the overall performance of firms (Cheng-Nam et al., 2007; Felicio et al., 2012).

Empirical studies have shown that SC positively influences business (financial) performance among SMEs (Adlešič and Slavec, 2012; Bosma et al., 2002; Cheng-Nam et al., 2007). In the study of Cheng-Nam (2007), SC predicts firm outcomes with regard to the profit or loss derived from investments (ROI). Other studies, like Džunić (2010), Fornoni et al. (2012) and Perreault et al. (2007), perceive the favourable gains from SC on some aspects of performance of small businesses. Irrespective of the numerous benefits associated with mobilising social ties, studies at the firm level and its effect on small business outcomes have not increased as would have been desired (Franco, Haase and Pereira, 2016). Past researches have delved into the usage of social relationships in organizations, but quite a number have over looked its effect on SMEs (Franco et al., 2016). There are evidences that have shown the benefits social network resources have brought to business’s customer-oriented processes, which in turn causes an impact on a firm’s sales performance (Rodriguez et al., 2014). It is argued that since SC is dependent on relationships in the social networks, it may enhance SMEs performance if the entrepreneur’s/owner/managers are emotionally intelligent (EI). Thus, without the effect of EI, the effect of social capital on business performance could be reduced or be rendered insignificant.

The impact of SC on a business performance has not been observed from the perspective of emotional intelligence (EI) of entrepreneurs and their employees (Khalili, 2011; Singh, 2010) although research has shown that EI directly impacts firm performance (Danquah and Wireko, 2014; Singh, 2010).

EI in this study is defined as the ability to intensively identify, critically assess and possess the ability to control the emotions of oneself, others and groups (Harms and Credé, 2010). Evidence from several studies suggest that personality characteristics, EI, creative abilities, as well as social networking and communication activities can all affect the entrepreneurial outcomes of SMEs (Naude et al., 2014). Unfortunately, entrepreneurs or managers of SMEs in Ghana seem not to be aware of SC and EI and how they can be mobilised in their social contacts and associations to enhance their performance (Akorsu et al., 2012; Keskin, 2006). Currently, extant literature in this area seems to be scanty (Khalili, 2011; Singh, 2010), especially from a Ghanaian perspective (Akwaah, 2008; Danquah and Wireko, 2014). Similarly, although past SC researchers have delved into the usage of social relationships and its effect on organizational performance, only a few have looked at the role of EI in enhancing these social relations on performance in SMEs (Kit and Nafukho, 2006). In view of these issues, this paper sought to assess the relationship between individual owner/manager's social network resources (SC) and the performance of SMEs through the mobilisation of EI. Therefore, the main objective of this research was to access the impact of SC on EI, measure the effect of EI on SME performance and assess the moderating role of EI on the relationship between SC and performance of the SMEs in Accra, the capital city of Ghana.

The rest of the paper is organized as follows. In the next section, the theoretical and empirical studies relating to this study are reviewed and, eventually, the hypotheses of the study are identified. In the subsequent section, the methodology together with the results of the study are discussed and lastly, the findings, implications and conclusions are discussed.

## **2. Literature review**

### ***2.1. Theoretical foundation***

Banks and other non-bank financial institutions provide limited access to financial resources to SMEs due to their limited financial capacity and the inability of SMEs to meet the borrowing criteria. A primary remedy to the problem is access to SC (Perreault et al., 2007). SC provides opportunities for entrepreneurs to use mutual relationships to access financial and other forms of capital without having to use collateral securities as guarantors (Khalili, 2011; Singh, 2010). With access to SC, SMEs would be able to maximise their potential (Perreault et al., 2007; Singh, 2010). But this logically requires that entrepreneurs acquire adequate knowledge on SC, its effect on their businesses and how to leverage it. Access to these three resources; finance, information and markets by SMEs can be gained from the use of SC and EI of entrepreneurs and their employees (Adlešič and Slavec, 2012; Bosma et al., 2002; Cheng-Nam et al., 2007). SC, which is an intangible resource, can be used by SMEs to collaborate with competitors or other SMEs to acquire and allocate supportive resources and potentials (Akwaah, 2008). Thus, the importance of social relations for SMEs has been recognized by a number of researchers, given the fact that SMEs need to obtain entry to other enterprises' assets. This research is, therefore, based on the theories of SC and EI, thus, social capital theory and theories underpinning emotional intelligence.

## **2.2. Social capital theory (SCT)**

The concept of social capital theory (SCT) until recently has been considered to have emerged from sociology (Brooks and Nufukho, 2006). Furthermore, Storberg (2002) indicated that social capital theory, like human capital theory and human resource development (HRD), could be found in management and sociology. Putnam (1995) simply defined SC as “the collective value of all social networks and the inclinations that arise from these networks to do things for each other.” Bourdieu (1986) explains SC as the accumulation of the actual or potential resources, which are thoroughly linked to the possession of a durable or quality network of well-established and institutionalized relationships of mutual acquaintance and recognition. Lin (2001a) defined the concept as “resources embedded in one’s social networks; resources that can be accessed or mobilized through ties in the networks.” In this study, social capital is seen as the network of strong personal relationships developed over a period of time over trust and cooperation that provides a significant contribution for the survival of the individuals, communities and an enterprise (Jacobs, 1965; Loury, 1977, Nahapiet and Ghosal, 1998). Seemingly, the definition sees SC as the combination of different social processes, patterns and, sometimes, practices that are enough to determine the SC of an entity. Various researchers (such as Burt, 1992; Fukuyama, 1995; Nahapiet and Ghosal, 1998, Putnam, 1993a) have opined that the social networks at the various levels from individual to group, organization and national levels are able to adequately foster knowledge sharing, learning, reduced time and transaction costs, reduced redundancy, reduced occurrence of opportunism and cost of monitoring and auditing, encourage cooperative behaviour, which helps in facilitating the complete development of new forms of association and innovative organization. The main purpose of SC is to generate capital and credit to members in the network, which serve as a source of capital for an entrepreneur (Nahapiet and Ghosal, 1998).

Two theoretical perspectives have been used to explain the conditions under which social network resources can generate returns for firms. Firstly, accessed SC entails the pool of resources inherent in one’s social relationships. Accessed SC predicts the extent of availability of such resources or the degree to which a potential supply of resources proficient in producing returns is obtainable in the social networks of the player. It is an indication of the volume of resources held and an assessment or inventory of resources in the social relations of an actor’s accessible or embedded resource (Lin, 2001; Sen and Cowley, 2013). The belief is that the richer or greater the resources, the richer and greater the benefits. Thus, the first perspective looks at the connection between accessed SC and its expected benefits. The second perspective looks at the usage of the social networks and is based on the premise that the capital resources that are best utilised will result in better benefits. Thus, it looks at mobilised social resources. Mobilized social resources reflect the actual use of a specific social network and its resources in the creation or utilization in the marketplace (Lin, 2001). It requires selecting a particular actor who may have the needed resources depending on the specific objective to be achieved.

## **2.3. Emotional intelligence**

The earliest EI theories developed are that of Salovey and Mayer (1989). This theory describes emotional intelligence as a skill of four dimensions, which are: (i) understanding the emotions, strengths, weaknesses, needs and motivations of self, and making use of this understanding in relating with people in daily activities (ii) the ability to reflect on past and current issues and conditions, the capacity to adapt to changes and situations, and saying no to impulsive urges in one’s dealings with others on daily basis; (iii) the ability to achieve when conditions are not favorable, being passionate over profession and work, and enjoying challenges and outcomes; and (iv) the ability to move people to a direction desired by the individual. This includes the ability to influence

decisions, thoughts and emotions in an expected way. The model of Salovey and Mayer (1989) played a monumental role in the evolution of the concept of emotional intelligence and its research work. For instance, this theory forms the formal foundation of many models and theories propounded later.

The EI theory of Bar-On (1997), for example, was developed from the model of Salovey and Mayer (1989). It recognizes EI as a set of interrelated emotional and social competencies that influence how effectively people understand and express themselves, understand others and relate with them and cope with the demands of daily life. Bar-On's (1997) theory establishes that EI is a cognitive skill or a form of intelligence that coordinates the success in people's daily relationship development. As mentioned earlier, the idea underpinning this theory is largely consistent with that of the theory of Salovey and Mayer (1989). A proper assessment of all EI theories would indicate that proponents and theorists of EI seek to explain the same idea in different contexts and disciplines. They tend to contend that EI is a requirement for successful interpersonal relationship. In fact, Brackett et al. (2004) opined in this vein that EI is needed in everyday behavior. In other words, emotional intelligence enables people to communicate effectively and satisfactorily with others by understanding their own emotions and be empathetic and using this understanding to react favorably to information and behaviors, including potentially irritating behaviors and information.

As indicated earlier, though EI theories are numerous, academics recognize the work of Goleman (1995) to be of a far-reaching influence on academic debate. This outstanding influence of the theory of Goleman (1995) is linked to several reasons. First, Goleman's theory of EI decomposes the four dimensions of Salovey and Mayer's (1989) model into five dimensions, thereby making the EI concept more comprehensive. Secondly, Goleman's theory explained EI in a more suitable field, which is leadership, and is consequently able to articulate the relevance of EI to everyday life. This point brings to mind the fact that proponents' interest to explain EI in different fields is the basis of the variety of EI theories. Of course, each of these theories is acceptable once it conveys the right understanding in its corresponding field. In addition, the fact that later theories such as that of Goleman (1995) are more popular, elaborate and comprehensive does not mean the theory of Salovey and Mayer (1989) is not important. In fact, apart from serving as the foundation for developing many theories, Salovey and Mayer's (1989) theory is the first to be formally incorporated in the literature (Freshman and Rubino, 2002). To date, this theory continues to play an important role in researchers' effort to assess the appropriateness of EI models for application in specific fields or disciplines. Goleman's (1995) EI theory embodies three models. The mixed model is one of these frameworks, with the other two being the ability model and trait model. The ability model recognizes an individual's emotions of self and emotions of others as relevant sources of information that enable one to make meaning of the social setting and to steer it (Goleman, 1998). It posits that individuals are distinct in their drive to exercise emotion-driven information, and in their power to relate psychological processing to a greater level of reasoning. The ability model has three goals: perceiving emotions; understanding emotions; and managing emotions. Thus, the trait model tends to look at how the individual perceives their emotional capacity. It, basically, explains attitudinal temperaments and self-perceived capabilities of the individual.

## **2.4. SME Performance**

Performance of SMEs can be viewed and measured using financial and non-financial measures, however, the financial measures are the most frequently used in practice and theory. Financial performance measures can include, return on assets (ROA), return on investment (ROI), share price, market shares, sales growth while non-financial performance measures include delivery speed, quality of products and services and inventory turns (Fullerton and Wempe, 2009). According to Hudson et al. (2001), balanced score is used in achieving strategic alignment in financial performance measurement since it emphasises on the attainment of balance between financial and non-financial performance measure. With the context of SMEs, it is highly necessary to use a combination of financial and non-financial measures in assessing the performance of firms. In this study, market share, sales growth, delivery speed and product quality were used to measure performance of SMEs.

## **2.5. Social capital and emotional intelligence**

Scholars have taken various approaches to understanding emotions as they massively affect individual and organizational performance (Brooks and Nafukho, 2006). According to Psychology, human emotions can be disruptive, disorganized and a symptom of poor adjustment (Davies and Cummings, 1994). At the individual level, individuals rely on others for emotional stability while subsequently influencing the emotions of others. Therefore, to maximize the potential of SC as an important factor in organizational performance, the internal environment must be emotionally conducive to its development. SC posits that social relationships are relations with productive capacity that can be utilized to create something of value (Coleman, 1990), and the same relations can be developed as a result of meaningful social relationships that individuals invest in creating value over time (Storberg, 2002). This implies that developing emotional intelligence within the organization creates an environment that enables the opportunity for SC to develop, which enhances organizational performance (Brooks and Nafukho, 2005).

Drawing from the SCT, affiliation to professional, religious and other forms of sectorial groups is an opportunity for individuals to acquire social, emotional and financial support. Social networks, for instance, create social support by serving as avenues for mentorship, recreation, and physical activity (Megyesi et al., 2010). Research has also shown that activities of social groups are a source of emotional needs to a group members, and such activities often repair psychological disorders (Putnam, 1993). From a business perspective, social groups are supportive on the basis of serving as a place for: (a) exchanging business ideas, particularly in the areas of marketing, operation and sales; and (b) accessing financial resources from individuals and/or group (Glenane-Antoniadis et al., 2003). It is, however, argued in this study, and in harmony with other studies (e.g. Surin et al., 2013), that having access to emotional and social support is a precursor to the acquisition of financial support within a social group. Meaning, relationships and ties are developed and strengthened in social networks through activities bothering on emotional and psychological exchanges (Surin et al., 2013). Putnam (1993) also observed that tangible items, including financial resources, could only be exchanged in a social group after a good relationship has been established in the process of exchanging emotional and psychological needs. This being the case, emotional intelligence could be considered a necessary tool that facilitates the development of ties between individuals within social groups. This study, therefore, hypothesizes that:

*H<sub>1</sub>: Social Capital has a positive and significant relationship with emotional intelligence.*

## ***2.6. Emotional intelligence and SME performance***

EI has been explained as the ability of an individual to explain one's feelings and to become responsive through the management of others' feelings within a specific setting (Mayer et al., 2001). It has been discovered that people with greater amounts of EI can drive themselves in situations of annoyance or exasperation, impulsion, keep back satisfaction, control the atmosphere and stop their feelings from getting the better out of them. Such qualities are believed to be a requisite for people in leadership positions (Brooks and Nafukho, 2006). EI, therefore, helps improve job productivity by enabling people to initiate and maintain favourable connections within the work environment. Research has also indicated that the influence of EI can only be ascertained if the power of emotional energy to assemble and manage conflicts or to determine a sense of organizational belongingness is recognized (Collins, 1990; Goleman et al., 2002). De Vries and Miller (1984) suggested that the EI of the owner/manager can help determine the performance of the firm. It has also been identified as a vital factor in long-term work achievements, firm efficiency and benefits (Diggins, 2004; Sy et al., 2006). As noted by Piperopoulos (2010), emotionally intelligent managers can enhance employees' ability to act proactively, which could enhance growth and the overall performance of the firm. Therefore, in this research, it is proposed that;

*H<sub>2</sub>: Emotional Intelligence has a positive and significant relationship with SME performance*

## ***2.7. The moderating role of emotional intelligence on social capital and firm performance relationship***

Organizations continually search for several innovative approaches to increase their competitive advantage and performance through the utilization of people's talent (Brooks and Nafukho, 2006). Individuals in the organization rely on one another for emotional stability while influencing the emotions of others. Impliedly, the maximization of social capital as a vital factor for SME development requires that the internal environment be emotionally responsive and conducive to its development (Brooks and Nafukho, 2006). In few of the previous studies that have researched into emotional intelligence–performance link have described the relationship as positive and phenomenal. For instance, an analysis of job competencies in 286 behaviours worldwide indicated that 18 of the 21 competencies in their generic model for distinguishing better performers were based on EI (Spencer and Spencer, 1993). Pesuric and Byham (1996) investigated and found that, in a manufacturing plant, lost-time accidents were reduced from an average of 15 per year to 3 per year, and the plant exceeded productivity goals by \$250,000. This was after supervisors in a manufacturing plant received emotional competency training on issues such as how to listen better and help employees resolve problems on their own. Effective development of EI within the organization establishes an environment that equally enables the opportunity for SC to develop, thereby enhancing SME performance. Hence, it is argued that, in very challenging and economically eruptive period, small firms will have to chase core policies to enable them access long-term competitive edge and supplement their worth. What is missing in the SC research is the influence of EI and how it affects reorganization, originality, and, eventually, the accomplishment and aggressiveness of the SME social networks and firm performance (Piperopoulos, 2010). Therefore, this research posits that:

*H<sub>3</sub>: Emotional Intelligence moderates the relationship between social capital and SME performance.*



## **2.8. Conceptual Framework**

**INSERT FIGURE 1 HERE**

Figure 1 provides a summary of the hypotheses identified in the theoretical review. H<sub>1</sub> hypothesizes that social capital has a positive influence on emotional intelligence, while H<sub>2</sub> and H<sub>3</sub> respectively hypothesize that emotional intelligence has a positive influence on SME performance and emotional intelligence moderates the relationship between SC and SME performance.

## **3. Methodology**

This study employed quantitative approach in addressing the research problem. This approach is suitable for the objectivist/positivist philosophical stance chosen and was preferable, because the study's objectives strictly required estimation of effects and correlations (Allwood, 2012; Williams, 2007). Moreover, the cross-sectional design option, which researchers (Allwood, 2012; Creswell et al., 2003; Williams, 2007) have identified as the best method for examining the relationship between variables measured as constructs in the social sciences, was utilized.

### **3.1. Population and Sampling**

The general population of the study was all SMEs in the Accra metropolis, who are registered with the Registrar General's Department. The total number of the population was 5009 SMEs. A simple random sampling method was used in selecting the samples for the study. Most of the firms were selected based on the number of months of existence (every SME must have existed in its market for at least six months, which is a requirement for developing social capital), the existence of at least one well-educated business executive (i.e. actual respondent) and the existence of a culture of marketing in the SME. In all, 1532 SMEs were selected for the study.

### **3.2. Development of the Questionnaire**

Compared to other data collection instruments, the questionnaire is considered to be an effective data collection instrument for quantitative studies (Cao et al., 2015). A questionnaire with three sections was developed for the study.

The first section introduced the researcher and study to the respondent. It included instructions and the contact information of the researcher. The second section contained questions soliciting basic demographic information about the firm. Questions regarding the gender of the respondent, the role of enterprise, the numbers of years that enterprise has been in existence, highest education of the respondent, the type of business ownership, the number of owners, whether the firm is family-owned or not and the sector of the enterprise were asked.

The third section contained the constructs measuring the main variables; SMEs performance, SC, and EI. The measuring items of SC and EI were adopted from Van Der Gaag and Snidjers (2005), and Schutte et al. (1998) respectively. Twenty-one (21) items such as "I can predict the behaviour of others" were used in measuring EI. The items were measured on a seven (7)-point Likert scale ranging from 'describes me extremely poorly' to 'describes me extremely well'. On the other hand, 33 items such as 'Can work with a PC' were selected to measure social capital. The SME performance was measured with four (4) items items, namely: market share, sales

turnover, delivery and product quality. Items were measured on a seven (7)-point Likert scale from worst in industry to best in industry. The main variables and the constructs are presented in table 1.0.

A pilot study with about 105 SMEs was undertaken to check the validity of the questionnaire to be used. All the measuring items were internally consistent with the main variables. After all the necessary discrepancies and the errors identified were corrected, the main respondents were contacted on phone to inform them of the research and, more importantly, obtain their willingness and schedule a time and date for their availability. Five research assistants were hired to assist in the data collection. The collection of data lasted for about two months and respondents who could not finish within the specified time were given extra two weeks to answer and return the question. Of 1,532 questionnaires distributed, only 892 complete questionnaires were returned. This represents a response rate of 58%. This is in consonance with the suggestion by researchers, such as Williams (2007) and Allwood (2012), who hold the view that a response rate should not be less than 50% for sample sizes less than 100, while others (Creswell et al., 2003) also contend that a response rate less than or equal to 50% is acceptable for large samples of 1,000 or more.

Levene's Test for equality of variance was conducted to determine the normality of the data and the homogeneity of variance. With a significant value of .723 and with the least of F value being .126, it could be confirmed that equal variances are assumed for respondents and the non-respondents. The final data was then subjected to further analysis with SEM specifically Amos.

### ***3.3. Preliminary Analysis***

With the demographic information obtained, 36% of the respondents were females, whereas 64% were males. Furthermore, with regards to the position of the respondents, 79% of them were managers, while 21% were owners. Also, most SMEs have existed, on the average, for about 3 years with the minimum and maximum ages of the firm being 1 and 5 years respectively. When asked about their educational background, 6% of the respondents had no education, 61% had pre-tertiary education and 33% had tertiary education. With respect to the form of ownership, 19% of the firms were limited companies, 78% were sole proprietorship, 0.6 % were cooperatives and 2.4% were partnerships. Moreover, when asked about their foreign activities or participation, 3% of the SMEs were foreign-owned, 95% were locally-owned, 0.2% were both foreign- and locally-owned, 0.86% were family-owned and 0.94% were actively in the service sector. The SMEs had an average of about 8 employees (Mean = 8.433), while the largest number of employees in a firm was 1000 and the minimum number of employees was 3.

### ***3.4. Reliability and validity***

In a quantitative research, it is often recommended that the measurement scales and the main variables are subject to validity and reliability test (Osei and Kağrıcioglu, 2018; Stank et al., 2001). Additionally, SEM provides the opportunity for confirmatory factor analyses (CFA) to be performed in order to test the validity of the model, constructs and further test the correlations of the variables. Principal components and CFA were conducted to ascertain a true, valid and unidimensional characteristics of the main variables and their related constructs (Stank et al., 2001; Osei and Kağrıcioglu, 2017). Specifically, Cronbach Alpha, principal components scores (PC) and factor loadings were conducted and used in testing the unidimensional characteristics of the variables. Table 1.0 below provides a summary of the reliability and validity tests.

## INSERT TABLE 1.0 HERE

Statistically, all principal component scores and factor loadings that meet or exceed .60 are accepted (Beaumont, 2012; Stank et al., 2001). The principal component scores and factor loadings are very vital in determining the validity and unidimensional characteristics as they essentially explain how each of the constructs measures or explains the main variable (Stank et al., 2001). Therefore in table 1.0 above, only few of the constructs depicted weaker loadings, the rest of the constructs depicted very high loadings. Same applies to the principal component scores of the constructs, therefore, it can be confirmed that the constructs were valid. Moreover, Cronbach Alpha was used in testing the internal consistency of the variables (Cronbach, 1951; Jayaram and Tan, 2010; Osei and Kağrıoğlu, 2018). Statistically, values that meet or exceeds .60 (with 1.0 being the threshold), are considered highly reliable. In table 1.0 above, the Cronbach Alpha values including values if Alpha is deleted are high and outstanding as they fall between .80 and .90.

Additionally, analysis of variance (ANOVA) was conducted to determine if there was any significant difference between the independent and dependent variables. With significant value of 0.00 for the entire test conducted on the variables, it was established that there is a significant difference between, and even within, the variables of the study.

### 3.5. *Model and Construct Validity*

CFA with SEM enables the model designed to be tested to ascertain its suitability in explaining the data hypotheses of the research (Hooper et al., 2008). The issue of determining if the model accurately represents the data and that the data is a true reflection of the underlying theory is known as model fit. However, the widely reported values used in measuring whether the model accurately represents the data is absolute fit indices (McDonald and Ho, 2002). Chi-square ( $\chi^2$ ) was the most widely used measure of absolute fit indices (Hu and Bentler, 1999; Hooper et al., 2008) however, due its sensitivity to sample size (Bentler and Bonnet, 1980; Hooper et al., 2008; Joreskog and Sorbom, 1993), it is often reported with other measuring factors such as root mean square error of approximation (RMSEA) (Stieger and Lind, 1980), goodness-of-fit (GFI) (Joreskog and Sorbom, 1984), root mean square residual (RMR) (Stieger, 1990), comparative fit index (CFI) (Bryne, 1994), Tucker Lewis index (TLI) (Tucker and Lewis, 1973), PCLOSE and (Pvalue) (Browne and Cudeck, 1993).

## INSERT TABLE 2.0 HERE

Considering the number of variables and the data, the high chi-square and the small degree of freedom (DF) indicates that minimum was achieved for the model and data, thus, the model fit of the data of the research. Moreover,  $\chi^2$  was significant. The RMSEA, which has been regarded as one of the few informative indices (Byrne, 1998; Hooper et al., 2008) is always reported after the chi-square and degree of freedom. Generally, RMSEA closer to .06 indicates a good fit (Hu and Bentler, 1999). In table 2.0, RMSEA value of .042 indicates a very good fit of the model. Additionally, GFI, CFI, IFI, TLI values between 0 and 1 are generally accepted to indicate a good fit (Bentler, 1990; Kline, 2005; Bentler and Hu, 1999; MacCallum and Hong, 1997; Tabachnick and Fidell, 2007). All values indicated a very good fit as they ranged between .80 and 1. RMR values as high as .08 and .09 are acceptable as model fit (Diamantopoulous and Sigauw, 2000; Hu and Bentler, 1999). The value .09 therefore indicates a perfect fit of the model. PCLOSE also indicated a significant fit.

### 3.6. Analysis and result

The model fit indices paved way for the correlation analysis to be performed purposely to tests the hypotheses of the study. The main model developed on AMOS is attached at the appendix section.

#### INSERT FIGURE 2.0 HERE

In H<sub>1</sub>, it was posited that SC has a positive and significant relationship with EI. The correlation analysis indicated a positive and significant relationship between the variables with a correlation coefficient, (EmotionalIntelligence<-->social capital .231, p-value .00). Therefore, H<sub>1</sub> was supported. As part of the main objectives of the study, it was suggested tha SC has a positive and significant relationship with EI. A positive relationship between SC and EI implies that the social relations of the owners/managers have a great relationship with EI. In other words, the ability of the managers or owners of the SMEs to create networks within and outside the firm is influenced by their ability to decipher and understand their emotions. Additionally, a significant relationship exists between the network the owners of the firm create and the ability of the owner/employee to predict the behavior of others, understand the feelings of others and know how to react to others feelings. The findings confirm the assertion made by Naudea et al. (2014) who found that EI together with SC can increase the performance of the SMEs and, therefore, managers and owners of SMEs should intensify the management of both social capital and EI to improve the performance of the SMEs.

Secondly, the research hypothesized that EI has a significant and positive relationship with SME performance. The correlation value of .188 and significant value of 0.00 indicate a positive and a significant relationship between EI and SME performance. Therefore, H<sub>2</sub> which posits that EI has a positive and significant relationship with firm performance is supported by the study. This implies that the manager's or owner's ability to identify, understand, assess and control the emotions of himself/herself and that of others/groups will improve the sales turnover, market share, order delivery speed and product quality improvement of the SMEs. In other words, the ability of owners or employees of SMEs to accept and understand feelings within and outside (customers and suppliers) the firm can lead to an improved performance of the SMEs. This finding is similar to that of other researchers (Diggins, 2004; Piperopoulos, 2010; Sy et al., 2006; Salovey and Mayer, 1989), who predicted that in the near future EI might have a massive influence on performance of firms, if well controlled. Consequently, based on the findings, this study admonishes SMEs to embrace the education of employees about their EI as it can increase both the operational and financial performance of the firms.

The study further postulated that EI moderates the relationship between SC and SME performance. The correlation value (.196) and significant value (0.00) indicate that EI has a strong, positive and significant effect on the relationship between SC and SME performance. H<sub>3</sub> was strongly supported. Empirically, SC has been found to have a positive influence on the performance of SMEs, therefore, the aim of this research to ascertain whether EI moderates the relationship between social capital and SME performance was achieved. The moderating role of SC suggests that SMEs owners and managers should manage their emotions after establishing social relations and networks, in order to improve the market share, sales turnover, delivery speed and product quality performance. In other words, even though SC can have a positive influence on firm performance, a rigorous management and control of emotions, after establishing social networks and relations at the workplace, can lead to a better and improved performance of SMEs.

#### **4. Implication for policy makers**

The main objective of this research was to assess the impact of social capital on EI and also measure the extent to which EI moderates the relationship between SC and SME performance in Ghana. The basic demographic analyses revealed that males manage most SMEs in Ghana and the owners of the SMEs prefer them to be managed by others other than themselves. Moreover, it was found that most of the SME managers have formal education, and most of the firms are companies limited by shares. Interestingly, the research revealed that most of the SMEs are locally-owned. This depicts a very good grounds for the government to support and encourage the locals in establishing many SMEs as it will help absorb the unemployed, encourage the locally-made goods and help increase the tax earnings of the government.

Similarly, The findings in this research, typically show that SC has eventually gained acceptance and prominence in SMEs, therefore, shareholders and other equally important stakeholders and most importantly policy makers of both private and public companies should encourage and promote the formation of social networks with educated, affluent and people ready to serve and help as it will improve the performance of the firm.

Currently, emotional intelligence has become an indispensable tool in every organization including SMEs. The ability to be sensitive and empathic towards others' feelings and emotions influences the relationship with them which eventually leads to an increased firm performance. Based on the factor loadings, this research encourages stakeholders and other policymakers of either public and private firms including SMEs to encourage and rigorously train its managers and employees to learn how to predict the behavior of others, know how their actions can make other feel, be surprised by the deeds of others, understand the feelings of others, understand others' wishes, good at meeting people for the first time, find people predictable, determine the intent of others, apologetic when others are hurt, predict the behavior of others, create acquaintances and understand people's gestures. Seemingly, EI is more of a psychological element and may be difficult training all employees to behave and become emotionally intelligent. Nonetheless, pursuing and instilling EI in employees and the owners of SMEs can have a huge impact on the social network possessed by the firm and can help grow the sales, attain a large market share, improve delivery speed, and help develop new products and services in the firm.

In terms of understanding the elements that can help improve the performance of firms in the firms, managers should target sales growth, increase market share, improve delivery speed and increase the quality of the product, as these elements will help in improving the performance of firms. Lastly, managers and owners after establishing good social networks should train themselves and employees to be emotionally intelligent as both factors are highly necessary to stimulate the performance of the firms.

#### **5. Conclusion and limitations**

This current research aimed at establishing the relationship between social capital and EI and ascertaining the extent to which EI moderates the relationship between social capital and SME performance. This research is one of the few empirical researches on EI and SME performance. Extant literature has established the positive relationship between social capital and performance, social capital and emotional intelligence, however, none of the extant literature researched into moderating role of EI on the SC and performance relationship. Also, SC and EI literature on Ghanaian SMEs is almost nonexistent. To the best of knowledge, this current study is the first empirical research on the moderating role of emotional intelligence in the social capital and performance

relationship in Ghana and in social capital literature. This paper breaks new ground by identifying emotional intelligence as an enabler of SMEs performance where there is adequate social capital.

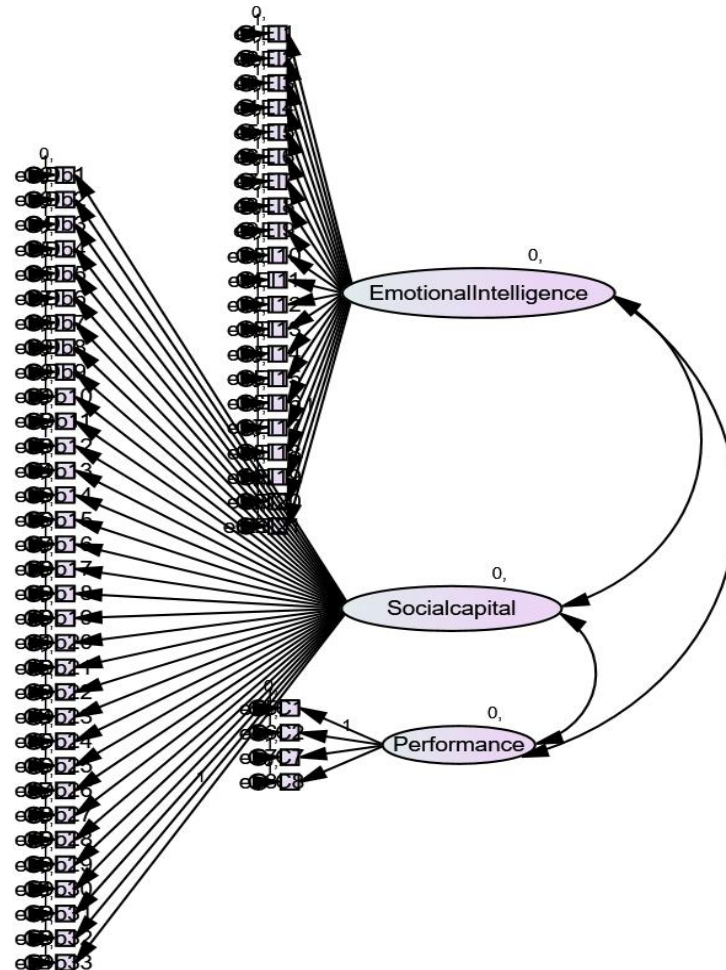
This research found a positive and significant relationship between social capital and emotional intelligence and a positive and a significant relationship between emotional intelligence and firm sales growth, market share, delivery speed and product quality. This research encourages managers and owners of firms (SMEs) and governmental organizations to establish social networks and learn more about others' feelings and emotions as it can improve the performance employees thereby improving the overall performance of firms.

This current study possesses a number of limitations. Firstly, the findings of the study cannot be generalized for all SMEs in Ghana as it was conducted in only one city in Ghana, that is, Accra. Also, the number of SMEs used in this research is a small representation of the total number of firms in the study area. Additionally, performance measures used in this research included only one construct measuring business (financial) performance, thus, the constructs do not represent a comprehensive measure the performance of firms.

Future research should be conducted in other cities or regions and, possibly, in other sectors either in Ghana or elsewhere to strengthen the validity of this research, as the results, especially from different countries, can prove highly relevant for theory development. Finally, since social capital is relationship based, future research can look at qualitative interviews to determine the nature and the depths of these relationships based on the variables that are explored in this study. Future research can use other sampling methods and adopt mixed constructs to comprehensively measure the financial and non-financial performance of the firms.

## APPENDIX

### Model from AMOS



The model illustrates the correlations between the variables. The main variables are represented in oval shape indicating latent variables while the measuring variables/constructs are represented in the rectangles indicating manifested or measured variables.

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## LIST OF TABLES

**Table 1.** Principal component, confirmatory factory analysis and Cronbach Alpha

CONSTRUCTS	PC SCORES	FACTOR LOADINGS	ITEM-TO- TOTAL CORRELTI ON	ALPHA IF ITEM IS DELETED	CRONBACH ALPHA FOR SCALE
<b><u>EMOTIONAL INTELLIGENCE</u></b>					<b>.853</b>
<b>EI1:</b> I can predict the behaviour of others	.515	.575	.492	.839	
<b>EI2:</b> Difficulty in understanding others' choices	.559	.360	.395	.843	
<b>EI3:</b> Know how my actions make others feel	.599	.586	.470	.840	
<b>EI4:</b> Uncertain around new people	.525	.310	.387	.844	
<b>EI5:</b> Surprised by the deeds of others	.498	.539	.552	.837	
<b>EI6:</b> Understand feelings of others	.518	.552	.437	.842	
<b>EI7:</b> Easily blend in	.527	.412	.272	.848	
<b>EI8:</b> People get angry at me without me knowing why	.533	.301	.392	.843	
<b>EI9:</b> Understand others' wishes	.576	.653	.538	.838	
<b>EI10:</b> Good at meeting people for the time	.480	.544	.399	.843	
<b>EI11:</b> People hate me for my opinions	.511	.261	.354	.845	

<b>EI12:</b> Hard time getting along with other people	.660	.143	.307	.848
<b>EI13:</b> I find people unpredictable	.427	.492	.537	.837
<b>EI14:</b> Able to determine the intent of others	.446	.619	.541	.838
<b>EI15:</b> Takes long time to know others well	.503	.162	.290	.848
<b>EI16:</b> Often hurt others without realizing it	.448	.503	.528	.838
<b>EI17:</b> Predict the behaviour of others	.514	.603	.524	.838
<b>EI18:</b> Easily Creates Acquaintances	.583	.545	.524	.844
<b>EI19:</b> Can understand through their gestures	.616	.589	.381	.841
<b>EI20:</b> Problems finding good conversation topics	.647	.263	.452	.847
<b>EI21:</b> Surprised by others' reactions to what I do	.539	.411	.321	.843
<b>Social Capital</b>				<b>.820</b>
<b>Db1:</b> Can repair a car, bike etc	.394	.352	.386	.820
<b>Db2:</b> Owns a car	.435	.323	.193	.825
<b>Db3:</b> Is handy repairing household equipment	.535	.230	.261	.824
<b>Db4:</b> Can speak and write a foreign language	.603	.254	.366	.835
<b>Db5:</b> Can work with a PC	.592	.223	.197	.825
<b>Db6:</b> Can play an instrument	.748	.355	.512	.815
<b>Db7:</b> Has knowledge of literature	.500	.473	.388	.820
<b>Db8:</b> Has graduated from senior high school	.569	.455	.204	.828
<b>Db9:</b> Has a higher vocational education	.408	.444	.246	.824
<b>Db10:</b> Reads a professional journal	.592	.646	.181	.829

<b>Db11:</b> Is active in a political party	.476	.311	.370	.820
<b>Db12:</b> Owns shares for at least GHS 10,000	.653	.642	.361	.821
<b>Db13:</b> Works at the town hall	.517	.545	.174	.826
<b>Db14:</b> Earns more than GHS 5,000 monthly	.638	.591	.182	.826
<b>Db15:</b> Owns a holiday home abroad	.491	.452	.255	.824
<b>Db16:</b> Is sometimes in the opportunity to contract people	.606	.375	.302	.823
<b>Db17:</b> Knows a lot about governmental regulations	.485	.582	.493	.817
<b>Db18:</b> Can find a holiday job for a family member	.687	.426	.538	.815
<b>Db19:</b> Can give advice on conflicts at work	.636	.137	.541	.814
<b>Db20:</b> Can help when moving house (packing, lifting)	.547	.392	.406	.819
<b>Db21:</b> Can help with small jobs around the house	.592	.381	.322	.824
<b>Db22:</b> Can do your shopping when you are ill	.706	.340	.443	.815
<b>Db23:</b> Can give medical advice when you are dissatisfied	.728	.177	.429	.813
<b>Db24:</b> Can borrow you a large sum of money	.694	.128	.482	.815
<b>Db25:</b> Can accommodate you (for a week)	.613	.366	.289	.818
<b>Db26:</b> Can give advice about conflicts with family	.687	.417	.517	.814
<b>Db27:</b> Can discuss with you what political party to vote	.502	.437	.169	.826
<b>Db28:</b> Can give advice on matters of law	.507	.250	.390	.821
	.558	.325	.238	.819

<b>Db29:</b> Can give a good reference when applying for job	.436	.539	.238	.828
<b>Db30:</b> Can give a good reference when applying for job	.512	.313	.206	.828
<b>Db31:</b> Can baby-sit for your children	.357	.317	.320	.822
<b>Db32:</b> Has good contacts with the media	.502	.259	.342	.828
<b>Db33:</b> Can be talked to regarding important matters.				
<b>Firm Performance</b>				<b>.826</b>
<b>PERF1:</b> Market Share	.905	.725	.491	.844
<b>PERF2:</b> Sales Growth	.954	.679	.481	.848
<b>PERF3:</b> Delivery Speed	.378	.622	.621	.795
<b>PERF4:</b> Product quality	.305	.606	.601	.803

**Table 2.0.** *Model (Absolute) Fit Indices*

$\chi^2$	DF	P	GFI	CFI	RMR	RMSEA	NNFI	PCLOSE	IFI	TLI
		VALUE								
7603.										
169	1592	.000	.861	.818	.097	.0042	.875	.000	.855	.824



## LIST OF FIGURES

### *Conceptual Framework*

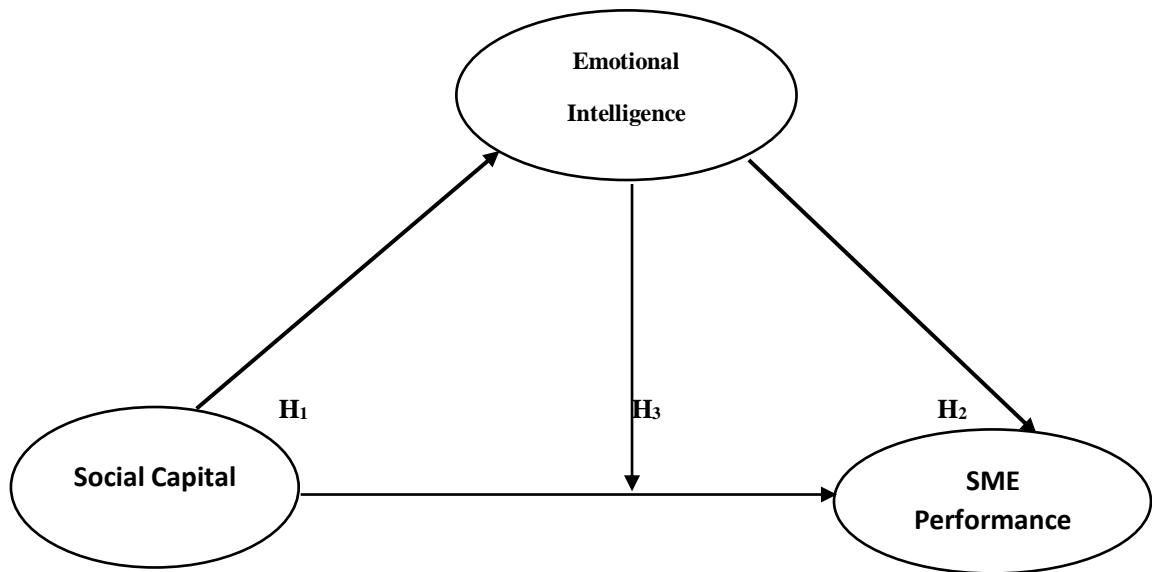


Figure 1: Conceptual Framework

### FIGURE 2.0

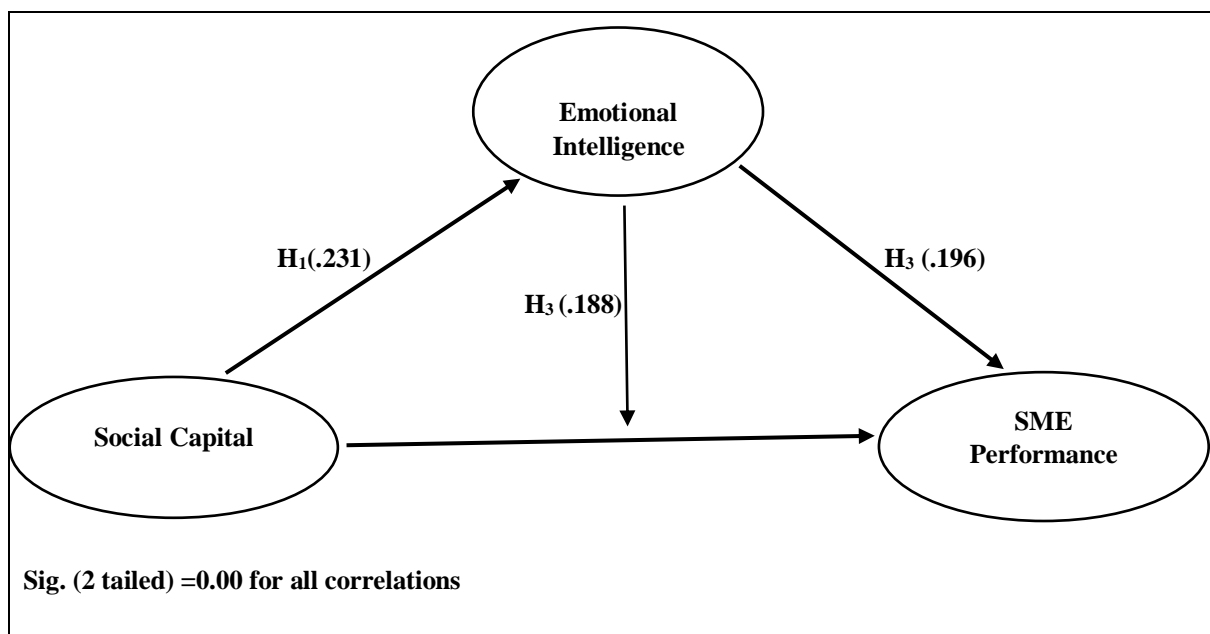


Figure 2. Results of Hypothesis

